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About this Report

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Atlantic Report
Highlights

Tough Fiscal Choices Ahead for the Maritime Provinces

- Fiscal restraint is now a dominant theme for the federal and most provincial governments across Canada.
- Strong growth in resource revenues has helped to radically alter Newfoundland and Labrador's fiscal position, although the fiscal outlook for the province is largely tied to volatile commodity prices.
- With the Maritime Provinces among the most indebted in Canada and only moderate economic growth forecast, the immediate fiscal challenges are considerable.
- Prince Edward Island is the most dependent on federal transfers, accounting for almost 43% of its total revenues, although it will not benefit from additional federal revenues for total transfer protection in 2011/2012.
- Lower production and soft prices for natural gas have removed $282 million from Nova Scotia's consolidated revenue fund in the last two years.
- New Brunswick has faced the most rapid deterioration in fiscal performance of all the Atlantic Provinces over the past two years, in part due to an ill-timed plan by the previous government to lower personal income taxes.
- Between 2005/2006 and 2009/2010, program expenses grew 7.8% per year on average in Atlantic Canada as compared to 2.6% per year on average over the period 1995/1996 to 1999/2000.
- Three major federal transfer programs - equalization, the Canada Health Transfer and the Canada Social Transfer - are up for renewal at the end of 2013/2014.
- As provinces face growing spending pressures from an ageing population, this points to the need to bring provincial budgets back to fiscal balance in a structured fashion as quickly as possible.

Atlantic Overview: 2010 and Beyond

- Newfoundland and Labrador powered through the recession with few setbacks, buoyed by its vibrant mining and energy sectors.
- While the Maritime Provinces managed to avoid suffering the worst effects of the recession, weak employment numbers point to a late-2010 stall in the economic recovery, just as the rest of Canada has been enjoying signs of renewed growth.
- The wind down of public stimulus in 2011 should slow institutional investment this year, with the three Maritime Provinces budgeting a combined $473 million less on capital spending than in 2010/2011.
- Construction employment might improve in 2012, if the largest Atlantic Canadian project in recent years comes to fruition. In November 2010, Newfoundland and Labrador, Nova Scotia and the project proponents announced that the 824 MW Muskrat Falls portion of the Lower Churchill Falls hydro project, valued at $6.2 billion, was moving forward, with a term sheet signed between Nalcor Energy and Emera.

Tough Fiscal Choices Ahead for the Maritime Provinces

Recessions typically create havoc for government finances. Budgetary revenues fall as companies retrench and individuals lose jobs and cut back on spending. At the same time government's responsibility to support individuals and provide economic stimulus to mitigate the worst effects of the economic downturn keeps the pressure on expenditures. As a result, the gap between revenues and expenditures typically widens through the recession. At the end of the recession, government is left struggling to respond to large deficits and rising debt. Inevitably, it leads to a period of fiscal restraint.

Fiscal restraint is now a dominant theme for the federal and most provincial governments across Canada. As we look ahead to budget season, what can we expect in Atlantic Canada? In this article, we focus on the fiscal climate and budget options for the four Atlantic Provinces, opening with some observations on the spill over from the federal budget.

Federal Government

Year to date figures suggest an almost $10 billion improvement in Canada's federal deficit this fiscal year, but fiscal year-end accruals, unforeseen liabilities (including HST compensation for Quebec), and adjustments could easily erode these gains by the time the public accounts are released for 2010/2011. Still, there is room for optimism because 42% of the $26 billion year to date deficit in 2010/2011 is linked to the Economic Action Plan. A decision to extend the plan to October 31, 2011 could push between $1 and $2 billion in federal and provincial infrastructure spending into next year, certainly beneficial to Atlantic Canada in allowing some existing projects to be completed. The wind down of stimulus spending is expected to reduce the 2011/2012 federal deficit by $12.5 billion.

With renegotiations of federal transfers on the horizon, a reduction in the federal deficit ahead of the schedule could reduce the risk of future cuts to federal transfers – a plus for Atlantic Canada. In late December 2010, the federal government tabled estimates of federal transfers to provinces and territories

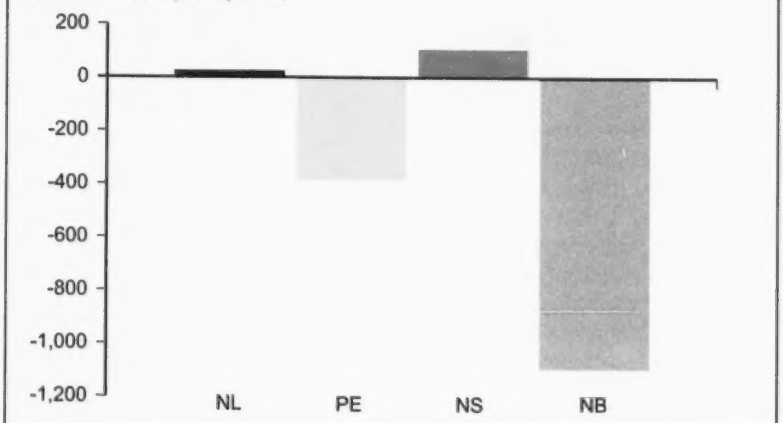
for 2011-2012. These latest federal transfer estimates include $1.1 billion in total transfer protection for next fiscal year. Nova Scotia and New Brunswick will benefit from combined total transfer protection of $294 million in 2011/2012. Total transfer protection began in 2010/2011, ensuring that no province receives less in total major federal transfers than it did in 2009/2010. Prince Edward Island does not require total transfer protection because its loss in equalization payments between 2009/2010 and 2011/2012 is more than offset by gains in the Canada Health Transfer and Canada Social Transfer.

The federal general corporate income tax rate fell to 16.5% effective January 1, 2011 and will be reduced a further 1.5 percentage points by 2012. A 1.5 percentage point reduction is estimated to cost $1.6 billion in foregone tax revenues in 2011/2012. Lower corporate tax rates are intended to stimulate business investment in Canada at a time when government-sponsored economic stimulus is winding down.

The federal government has imposed an operating budget freeze for fiscal years 2011/2012 and 2012/2013, but it is as of yet unclear how this will be achieved. Wage restraint will certainly be part of this. With restrictions in place, recent Public Service Alliance of Canada wage settlements are averaging 1.5% per year over the next two to three years, excluding wage concessions that replaced severance pay. Other operating budget savings may result from attrition. According to a January 2011 report from the Parliamentary Budget Office, roughly 11,000 public servants vacate their positions each year. With a strong presence of the federal employment in some parts of Atlantic Canada, these restrictions could have an impact in this region.

While individuals can expect little tax relief in the upcoming budget, one popular measure may be reintroduced. A recent assessment of the Home Renovation Tax Credit estimated that this credit pumped an additional $4.3 billion in renovation investment into the national economy, while it provided Canadian households with an estimated $2.3 billion in tax savings. Reintroducing this credit could be a benefit to Atlantic Canada where the housing stock is older than in the rest of Canada.

Newfoundland and Labrador and Nova Scotia Post Early Return to Surplus
2010-2011 Deficit per capita ($)



Source: Provincial Fiscal Updates, Statistics Canada, APEC

Newfoundland and Labrador

While most provinces are cutting expenditures, Newfoundland and Labrador is moving in the opposite direction, maintaining capital and program spending and forecasting a $12 million surplus in 2010/2011.

Strong economic growth – the province had the fastest growing economy over the period 2000 to 2010 - and growth in resource revenues have helped to radically alter the province's fiscal position, partially as a result of oil royalties which increased over five-fold in the last five years. Oil royalties now account for 29% of total revenues. Along with oil royalties, corporate income tax revenues have increased over six-fold since 2000 – thanks to higher resource profits, increased mining and offshore activity, and higher commodity prices. The province has not received equalization since 2007/2008 because of its robust fiscal capacity. Corporate income tax and mining taxes comprise 9% of total revenues.

Over the last five years, the province has earned a cumulative surplus of $3.9 billion – giving it the fiscal room to improve program delivery and diversify its economy. Current government priorities include investments

in health, children and youth, economic diversification, poverty reduction and the Northern Strategic Plan, as well as a $1 billion infrastructure plan. This year, hurricane Igor and an unfunded pension liability will also place some upward pressure on program expenses and debt servicing costs. In prior years, the province has increased spending with an equity investment in offshore oil projects as well as increased funding for research and development.

Although its fiscal position is advantageous, the fiscal outlook for the province is largely tied to volatile commodity prices. Oil royalties dropped 16% in 2009/2010 because of the collapse in commodity prices. Oil prices remain below their 2008 peak and oil production is expected to level off in 2011. However an anticipated increase in oil prices in 2011 could boost oil royalties in 2011/2012. The decision to borrow $3 billion to fund the capital investment in the Muskrat Falls generating facility will increase the province's net debt and borrowing costs in the future. The province's net debt to GDP ratio for 2010/2011 is forecast to be 34%.

Prince Edward Island

Prince Edward Island tabled a budget last year that projected cuts to spending by 4.5% in 2010/2011 through streamlining government, but few details were given as to how that fiscal restraint will be achieved. Prince Edward Island is currently predicting a $55 million deficit in 2010/2011, the same level as it forecast at budget time.

Labour arbitration is currently underway with close to 2,000 public sector employees and the agreement that is expected shortly may give an indication of how successful the government is likely to be in controlling expenditures. Health care workers settled for a 4.4% wage increase last fall, raising the bar and creating cost pressures for the provincial government.

Prince Edward Island's tax rates remained largely status quo in the last budget, and despite pressure from the business sector, the province has not implemented a harmonized sales tax. However, the province has made some changes to its business taxation - dropping its small business tax rate to 1%. The twenty year aerospace tax rebate program is scheduled to end in 2012.

While total tax revenues increased 4% on average annually over the last five years, there was a decline in corporate income tax. It remains to be seen how P.E.I. will stimulate growth in its tax base in the future. The province last balanced its budget in 2006/2007. Prince Edward Island is the most dependent on federal transfers, accounting for almost 43% of its total revenues, yet it will not require total transfer protection from the federal government in 2011/2012.

The province's net debt to GDP ratio is forecast to be 35% in 2010/2011. Prince Edward Island reduced its stimulus spending by $17 million in the 2011/2012 capital budget, which should slow the increase in its net debt. Beginning in March 2011, the province will borrow funds to cover the remaining duration of the Point Lepreau refurbishment, notably to cover the deferral costs for replacement power. While this will reduce interest costs and save ratepayers upwards of $2.9 million, it passes the costs on to taxpayers by raising the province's debt load by an estimated $38 million. The province is also seeking 50% federal funding for a third electricity transmission cable link to New Brunswick, with an estimated capital cost of $90 million. If the province opts to fund the other half, then provincial debt could rise by a further $45 million.

Nova Scotia

To avoid a mushrooming deficit of $1.4 billion by 2012/2013, as forecast by independent experts, Nova Scotia instituted some radical measures in its last budget

The province increased its Harmonized Sales Tax (HST) rate by two percentage points on July 1, 2010, now the highest rate in Canada, and replaced its high income surtax with a fifth personal income tax bracket. The province lowered its small business tax rate by 0.5 percentage points to 4.5% effective January 2011.

This year, the province is projecting a $97 million surplus in 2010/2011, due mainly

to prior year adjustments, as well as gains in personal income taxes and HST revenues. In particular, the move by a previous administration to double record university funding in the 2009-2010 fiscal year has avoided a sizable deficit in 2010/2011. However the lack of clarity on future revenue flows and the true size of the structural deficit has also led to questions about the necessity of tax increases.

What is clear is that without action, the province was facing a sizeable structural deficit, in part due to the significant decline in offshore natural gas royalties. Lower production and soft prices for natural gas has removed $282 million from the consolidated revenue fund in the last two years alone. As Sable gas production moves to the sunset phase, the province will need to cut spending to adjust to lower revenues from this source.

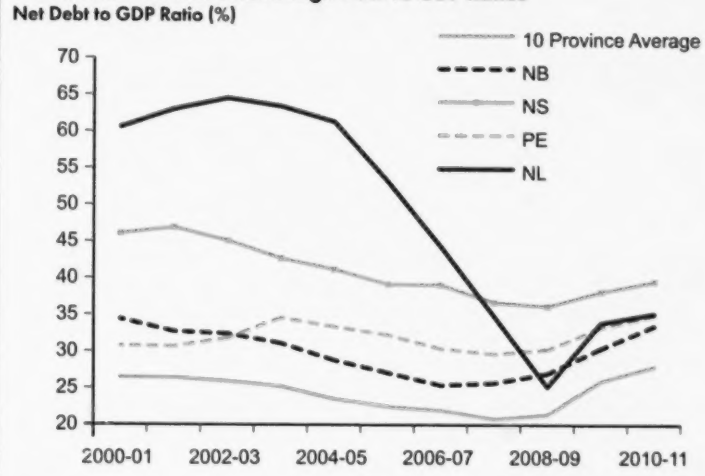
Program expenses are down in 2010/2011, as the government intends to reduce the health, education, and community services budgets by 5%, while all other departments are expected to achieve 10% cuts. Nova Scotia also wants to reduce the size of its civil service by 10%, which highlights where the bulk of the budget savings will come from over the next three fiscal years.

Nova Scotia is reducing its school board funding by 1.7% and grants to universities by 4% in 2011/2012, but there could be further reductions in future years. The province will also reduce its 2011/2012 capital budget by $109 million as stimulus spending comes to an end. It remains to be seen how the health care and community services budgets will be addressed, as these three program areas (including education) account for 76% of departmental expenses. The province will benefit from $149 million in federal total transfer protection in 2011/2012. Compared to other provinces, Nova Scotia's net debt to GDP ratio is the second highest in Canada, at 40% in 2010/2011.

New Brunswick

The new government in New Brunswick is facing some very tough challenges with a deficit forecast of $820 million in 2010/2011. Its election platform promised an array of tax reductions and spending measures but a more realistic appraisal of the province's options is now occurring. Pre-budget consultations have opened the door to the possibility of tax increases. The recent State of the Province address by the Premier highlighted municipal amalgamation as way to generate savings.

The Atlantic Provinces Have High Debt To GDP Ratios
Net Debt to GDP Ratio (%)



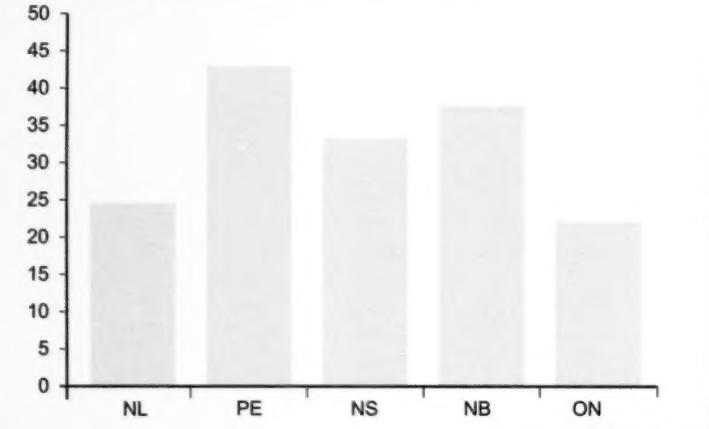
Source: Finance Canada, Public Accounts, Fiscal Updates, Statistics Canada/APEC

New Brunswick has faced the most rapid deterioration in fiscal performance of all the Atlantic Provinces over the past two years, in part due to an ill-timed plan to lower personal income taxes by the previous government. The Plan for Lower Taxes introduced in March 2009 included the introduction of a two tier income tax structure by 2012/2013 which would significantly reduce the income tax burden, particularly for high income earners. The change in rate structure contributed to a reduction in personal income tax revenues in 2009/2010 of 2.1%, as compared to a 0.2% decrease over the same period in Nova Scotia. The province has now scaled back its tax relief, particularly for those in the highest personal income category and will only reduce the general corporate income tax rate to 10% rather than the 8% target. As a partial offset, the small business tax rate will be cut in half.

Although revenues increased in 2010/2011 due to increased personal income tax revenues and a tobacco tax settlement, total spending rose by twice as much in dollar terms as a result of increased spending on health care, regional

development, social development and debt servicing costs. The province now intends to reduce spending by trimming departmental budgets by 1% in 2010/2011 and 2% in 2011/2012 and each year thereafter. However this may be a challenging target to achieve without substantial program cuts, given that a two year wage freeze for provincial employees ends in 2011. The government also plans to introduce changes to its economic development programs with the introduction of Invest New Brunswick, but its full intentions in this regard may be difficult to achieve in an expense-cutting environment.

Maritime Provinces Dependent On Federal Transfers
2010-2011 Federal Transfers as a Share of Total Revenues (%)



Source: Provincial Fiscal Updates, APEC

The province's finances will achieve a break with the end of stimulus spending due to a drop in the province's capital budget of $347 million by 2011/2012. New Brunswick will also receive $145 million in total transfer protection from the federal government next year.

Even with an ambitious spending reduction plan, this will not be enough to bring revenues and expenditures back to balance. New Brunswick's net debt to GDP ratio jumped to 34% in 2010/2011 and could go higher unless the appropriate action is taken. To avoid the prospects of a crippling structural deficit in the future, the province will need to increase revenues. Big steps are required – perhaps starting with a 2 percentage point increase in the HST which could increase provincial revenues by $250 million. Other measures can also be considered – including introducing or raising user fees – but the province and the public need to be realistic about the net revenue gains from instruments such as road tolls. Nova Scotia's lone toll highway generated just $19 million in toll revenues before expenses in 2009/2010.

Comparing Key Trends in Provincial Spending

Between 2005/2006 and 2009/2010, program expenses grew 7.8% per year on average in Atlantic Canada. A review of Statistics Canada public sector statistics over the period 2004/2005 to 2008/2009 highlights provincial government spending on average grew as follows in Atlantic Canada: health +7.9%; education (including university funding) +8.5% ; social services (including workers compensation benefits) +5.4% ; and resource conservation and industrial development +5.6%. In 2008/2009, these four program areas accounted for over 78% of program spending in Atlantic Canada.

An ageing population is placing upward pressure on health care costs, while an increased focus on early childhood learning and youth has lifted education spending. High unemployment rates for an extended duration could raise program expenditures on social assistance. The unemployment rate in Atlantic Canada exceeded 10% in the last two years.

Over the last five years, governments have moved away from their spending discipline in the late 1990s. In real per capita terms, program spending in Atlantic Canada grew by 4.6% per year on average over the period 2005/2006 to 2009/2010. In the period 1995/1996 to 1999/2000 when expenditure restraint was at its height, real program spending per capita in Atlantic Canada increased 1.7% per year on average. Achieving fiscal restraint will not be an easy task this time around. Unlike the recession of the early 1990s, the latest economic downturn has been accompanied by significant public stimulus that raised deficits and debt. Likewise, slower economic growth in recent years has reduced growth in the tax revenues necessary to fund programs, thereby exacerbating deficits. Between 2006 and 2010, nominal GDP growth in Atlantic Canada

slowed to 3% per year on average, as compared to 4.2% between 1995 and 1999.

Trends in Revenue

Total revenues increased 6.3% on average in Atlantic Canada over the period 2005/2006 to 2009/2010, as a result of strong growth in own-source revenues. Over this period, federal transfers grew by 4.8% on average – due to the ten year agreement on the Canada Health Transfer in 2004 and equalization reform in 2007. Three major federal transfer programs - equalization, the Canada Health Transfer and the Canada Social Transfer - are up for renewal at the end of 2013/2014. Any reduction in funding under these agreements would have a significant impact on Atlantic Canada. Federal transfers make up nearly one-third of total revenues in Atlantic Canada.

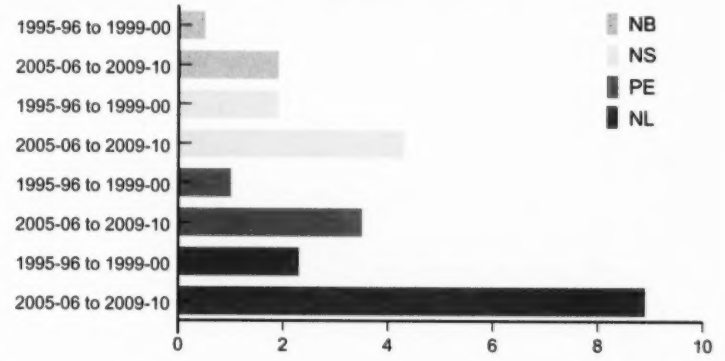
As a partial offset, the growth of the natural resource sector and higher commodity prices has resulted in strong growth in corporate income tax especially in Newfoundland and Labrador. Rising commodity prices may boost the tax revenue base, but an ageing population could slow the pace of growth in tax revenues in the future. An exchange rate trading near parity could limit future growth in exports, profits, and associated income taxes – a much different scenario than the late 1990s when the exchange rate averaged just over 70 cents US.

Any cutbacks to federal transfers could increase deficits and debt, if governments are unable to fully address spending pressures. Go forward, if debt to GDP ratios edge upwards, there will be some upward pressure on debt charges. This will be compounded by anticipated interest rate increases. Atlantic Canada's net debt to GDP ratio is forecast to be 36% in 2010/2011, over six percentage points higher than it was two years ago.

Conclusions

As is clear from the preceding analysis, there are now considerable differences between the economic fortunes and fiscal performance of the four Atlantic Provinces. Newfoundland and Labrador, at least in the immediate future, will continue to be bolstered by revenues from the energy and mining sectors, although its considerable reliance on one key revenue source leaves it highly exposed to volatility in prices. The situation for the three Maritime Provinces is much less robust. Although the recession had a modest impact on the Maritimes compared to many other provinces, spending pressures coupled with revenue erosion have worsened each province's fiscal position.

Increased Revenues Drive Up Program Spending
Average Growth in Real Program Spending per capita (%)



Source: Statistics Canada/APEC

With the Maritime Provinces among the most indebted in Canada and only moderate economic growth forecast, the immediate fiscal challenges are considerable. Furthermore, anticipated changes to federal transfer programs in the future, such as the renegotiation of the Canada Health Transfer for the period after 2013-14 could result in a much slower revenue growth from this source than in the past. As provinces face growing spending pressures from an ageing population, this points to the need to bring provincial budgets back to fiscal balance in a structured fashion as quickly as possible. Although this will not be easy, it is essential to take this step in order to strengthen the region's foundation for growth in the future.■

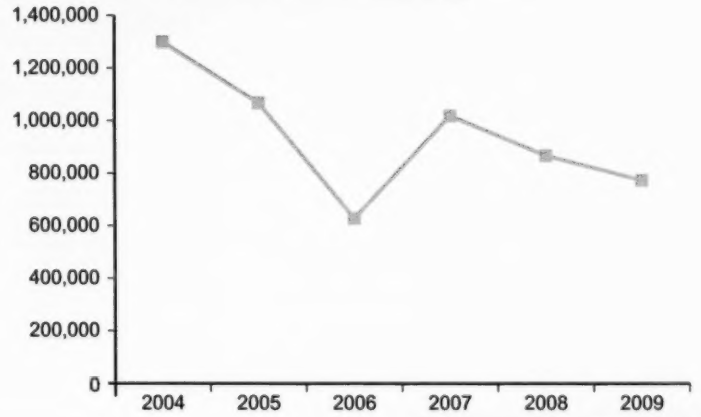
2010 and Beyond

The performance of the Atlantic region in 2010 played out as a tale of two economies. Newfoundland and Labrador powered through the recession with few setbacks, buoyed by its vibrant mining and energy sectors. And while the Maritime Provinces managed to avoid suffering the worst effects of the recession, employment figures indicate a downward trend in late-2010, just as the rest of Canada has been starting to enjoy an economic recovery.

Though exports in the region remain below their pre-recession peak, export growth showed some strength. New Brunswick export growth led the country, but Newfoundland and Labrador and Nova Scotia also made small gains – while P.E.I. exports declined. Non-energy exports increased in Atlantic Canada, except in P.E.I. Energy exports rose significantly in New Brunswick and marginally in Newfoundland and Labrador. Early indications are the US economy grew 3.2% in the last quarter of 2010, suggesting exports will continue to expand in 2011.

Closure of Holyrood Thermal Generating Station Will Reduce GHG's

Holyrood Greenhouse Gas Emissions (Metric Tonnes CO_{2e})



Source: Environment Canada, Reported Facility GHG Data

Manufacturing also lags its pre-recession highs though manufacturing shipments advanced across most of Atlantic Canada. Higher commodity prices benefitted resource-related manufacturing, such as food processing, forestry and petroleum refining. With commodity prices forecast to rise in 2011, resource production and exports could increase. Oil prices rose 16% in Canadian dollar terms last year. Despite the gains, the manufacturing sector continued to shed jobs in 2010 as employment shrank by almost 3,800 jobs last year.

Newfoundland and Labrador's vibrant economy drew strength from its booming resources sectors, with the province leading the country in employment growth over 2010. While employment in the Maritimes was also healthy in early 2010, recent numbers indicate a late-2010 jobs slump in the three Maritime Provinces. A recent revision to labour force statistics highlights Nova Scotia and New Brunswick employment has slipped below pre-recession peaks, while in Prince Edward Island it fell back to the pre-recession peak.

Despite evidence of weakness in the economies of the Maritime Provinces, Atlantic consumer confidence remained relatively strong. Across Atlantic Canada, average weekly wages increased 3% on average. This growth in incomes is in sync with 2% growth in retail sales, excluding motor vehicles and motive fuels. Low interest rates stimulated car sales, while higher gas prices added to fuel sales.

Low interest rates led to a strong housing market last year, but only Nova Scotia came close to the national pace for new home construction. The housing market is expected to cool in 2011 as interest rates begin to rise.

The wind down of public stimulus in 2011 should slow institutional investment this year, with the three Maritime Provinces budgeting a combined $473 million less on capital spending than in 2010/2011. With the exception of Prince Edward Island, non-residential investment continued to flourish in 2010, up 12% in the other three provinces. The construction sector experienced positive job growth in 2010, but less public infrastructure stimulus and lower housing activity could reduce construction employment in 2011.

Construction employment might improve in 2012, if the largest Atlantic Canadian project in recent years begins construction. In November 2010, Newfoundland and Labrador, Nova Scotia and the project proponents announced that the 824 MW Muskrat Falls portion of the Lower Churchill Falls hydro project, valued at $6.2 billion, was moving forward, with a term sheet signed between utilities Nalcor Energy and Emera. The 4.9 TWh Muskrat Falls hydro project could begin transmitting power in 2017, at a capital cost of $3 billion. A $2.1 billion investment in a 900 MW transmission link will be built to bring electricity to the island of Newfoundland, along with a further $1.2 billion investment to bring power to Nova Scotia via a 500 MW subsea transmission link.

The Muskrat Falls project could create almost 48,000 jobs in Canada during the development phase. The island link between Labrador and the Island of Newfoundland

is expected to result in the closure of the 500 MW Holyrood oil-fired generation station in Newfoundland, thereby reducing GHG emissions and dependence on volatile oil prices to generate electricity. Nova Scotia will receive about 170 MW of clean hydro power from Lower Churchill, accounting for between 8% and 10% of the province`s energy needs - while helping the province to reduce its GHG emissions and achieve its 40% renewable energy target by 2020. This project has the potential to benefit the whole region, as an additional 330 MW on top of the 170 MW will be available for export to other provinces and New England.■

ATLANTIC ECONOMIC SNAPSHOT

Labour Markets

	Period	NFLD	PEI	NS	NB	Atlantic	Canada
Employment	Jan-Dec 10	219.5	70.7	452.5	356.2	1,098.8	17,044.9
thousands	Jan-Dec 09	212.1	68.6	451.6	359.6	1,091.8	16,813.5
	%change	3.5	3.1	0.2	-0.9	0.6	1.4
Unemployment Rate	Jan-Dec 10	14.3	11.3	9.3	9.3	10.5	8.0
percent	Jan-Dec 09	15.6	12.0	9.1	8.7	10.5	8.3
Unemployment Rate	Dec 10	14.0	11.8	10.4	9.4	10.9	7.6
percent (current month)	Dec 09	15.3	10.5	9.2	8.9	10.5	7.6
Participation Rate	Jan-Dec 10	59.9	68.1	64.2	63.7	63.3	67.0
percent	Jan-Dec 09	59.0	67.4	64.3	64.2	63.3	67.1

Consumer Markets

	Period	NFLD	PEI	NS	NB	Atlantic	Canada
Consumer Price Index (CPI)	Jan-Dec 10	117.4	119.5	118.2	115.9	n/a	116.5
2002=100, unadjusted (period avg.)	Jan-Dec 09	114.6	117.3	115.7	113.5	n/a	114.4
	%change	2.4	1.8	2.2	2.1	n/a	1.8
Residential Permits	Jan-Nov 10	712.7	128.8	886.1	542.0	2,269.6	40,570.5
$ millions	Jan-Nov 09	523.7	105.1	719.7	522.2	1,870.7	30,870.4
	%change	36.1	22.6	23.1	3.8	21.3	31.4
Urban Housing Starts	Jan-Dec 10	2,214.0	592.0	3,538.0	2,952.0	9,296.0	166,175.0
Units; unadjusted	Jan-Dec 09	2,020.0	693.0	2,786.0	2,622.0	8,121.0	130,363.0
	%change	9.6	-14.6	27.0	12.6	14.5	27.5
Rural Housing Starts	Jan-Dec 10	1,392.0	164.0	771.0	1,149.0	3,476.0	23,755.0
Units; unadjusted	Jan-Dec 09	1,037.0	184.0	652.0	899.0	2,772.0	18,718.0
	%change	34.2	-10.9	18.3	27.8	25.4	26.9
Retail Trade	Jan-Nov 10	6,762.5	1,616.0	11,669.8	9,632.1	29,680.3	399,374.4
$ millions	Jan-Nov 09	6,521.5	1,536.7	11,071.0	9,217.3	28,346.5	379,887.7
	%change	3.7	5.2	5.4	4.5	4.7	5.1

Industrial Markets

	Period	NFLD	PEI	NS	NB	Atlantic	Canada
Total Non-Energy Exports	Jan-Nov 10	2,859.4	709.7	3,570.3	3,640.3	10,779.7	276,898.1
$ millions, unadjusted	Jan-Nov 09	2,674.3	785.9	3,310.9	3,177.9	9,949.0	255,424.6
	%change	6.9	-9.7	7.8	14.6	8.3	8.4
Total Energy Exports	Jan-Nov 10	5,299.6	3.4	456.7	7,798.8	13,558.5	85,339.2
$ millions, unadjusted	Jan-Nov 09	5,155.9	12.2	625.7	5,795.4	11,589.2	73,250.2
	%change	2.8	-71.8	-27.0	34.6	17.0	16.1
Manufacturing Shipments	Jan-Nov 10	4,583.5	1,113.0	8,989.6	15,523.4	30,209.6	488,308.0
$ millions	Jan-Nov 09	4,014.4	1,221.6	8,209.1	12,786.2	26,231.3	447,995.5
	%change	14.2	-8.9	9.5	21.4	15.2	9.0
Non-Residential Permits	Jan-Nov 10	479.8	98.8	661.9	524.2	1,764.7	26,864.8
$ millions	Jan-Nov 09	176.0	61.7	536.9	518.4	1,293.0	24,218.3
	%change	172.7	60.2	23.3	1.1	36.5	10.9

Note: Seasonally adjusted unless otherwise noted (unadjusted).

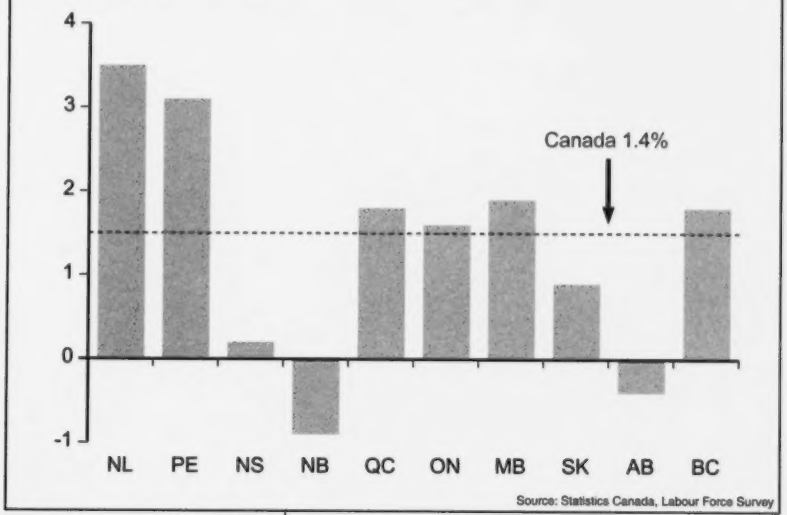
Source: Statistics Canada

Provincial Report
Newfoundland & Labrador

2010 in Review

Newfoundland and Labrador's economy bounced back in 2010, as the labour market drove housing demand upwards and the resource sector rose on increased production and higher commodity prices. Continued energy exploration and development, coupled with the Lower Churchill Falls project, could drive future economic growth.

Newfoundland & Labrador Had the Strongest Provincial Employment Growth
2010 Employment Growth (%)



Source: Statistics Canada, Labour Force Survey

The province led the country in employment growth with a 3.5% increase, with most of the gains in full-time employment. The primary resource, trade and health care sectors were responsible for the bulk of the gains which helped boost labour income by 3.7% in the first three-quarters of 2010. The province had the second highest growth in Canada in average weekly earnings to the end of November, at 4.6%.

Newfoundland and Labrador's economy continues to derive growth from its booming resource sectors.

Consumer confidence in Newfoundland and Labrador remains high, with retail sales to the end of November gaining 3.7%, led by significant gains in motor vehicles and sporting goods. Provincial housing starts jumped 18% in 2010, due to strong employment growth and a rebounding resource sector. Although housing starts in St. John's slowed in the fourth quarter of last year, on a year over year basis, they increased by 7%. Rural housing starts increased 35% in 2010.

Newfoundland and Labrador's economy continues to derive growth from its booming resource sectors. The province's own forecast suggests that the value of mineral shipments jumped by 72% last year to $3.3 billion, led by a doubling in the value of iron ore production to almost $2.4 billion. A 40% increase in the value of the province's nickel production is projected for 2010, despite a Vale strike that lasted eighteen months. A tentative labour agreement was reached in January 2011 that could end the Vale strike. The value of international exports of minerals increased 4% year-to-date in 2010. The total shipment volume of iron ore was up 12% in 2010 year-to-date to November which, combined with higher ore prices, boosted the value of iron ore production.

The province also predicts oil production will reach 103 million barrels in 2010, which is over 5% higher than the previous year. The value of international oil exports dipped 3% year-to-date to November, despite a 16% increase in the Canadian dollar Brent crude oil price. Some Newfoundland offshore oil is refined in Atlantic Canada, thereby adding value. International refined petroleum exports rose 15% year-to-date. The US Energy Information Administration projects crude oil prices will increase 17.6% in 2011.

The volume of fish landings dipped an estimated 3.3% in 2010, due to lower landings for capelin, mackerel and herring. Values for fish landed rose 2.5%, thanks to higher prices for shrimp and turbot. The value of primary fish exports rose 16% year-to-date to November 2010, while the value of processed seafood exports jumped 6%. Growth in the value of primary fish exports was buoyed by shrimp, crab and molluscs.

With only one newsprint mill still operating in the province, the value of newsprint shipments is expected to decrease 10% in 2010 – the result of a mill closure and the high exchange rate. International newsprint exports were down one-third year-to-date to November 2010. Total merchandise exports for all goods to the end of November were up 4% last year.

Mining

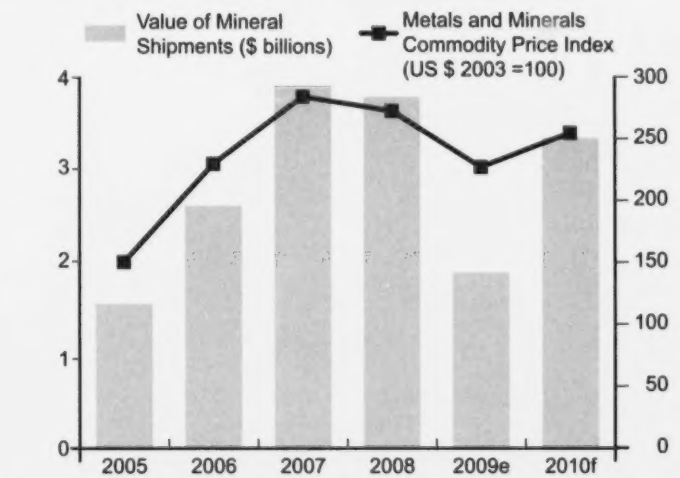
Mining exploration rose an estimated 31% in 2010 to $72 million, but remains one half its pre-recession level. Two-thirds of the exploration investment last year was split between base metals (26%) and iron ore (40%). Mining capital investment was projected to rise 7% last year, a mere 42% of the 2008 level when commodity prices were peaking.

The $435 million expansion of Iron Ore Company of Canada's Labrador West iron ore mine restarted last year after iron ore prices in US dollars shot-up 63% in 2010, with the International Monetary Fund's iron ore price index forecasting a further increase of 1.7% in 2011. Labrador Iron Mines Holding Ltd. has completed most of the construction and development of its iron mine near Schefferville, which is anticipated to start commercial production in April 2011. New Millenium Capital hopes to begin commercial production of its direct shipping ore project by the third quarter of 2012. Industrial construction was strong last year – as a result, non-residential construction investment increased 3%.

Offshore Oil Exploration

A new three-year rig sharing agreement between Husky Energy, Statoil and Suncor Energy will result in TransOcean's Henry Goodrich semi-submersible rig conducting more exploration and development drilling in Newfoundland and Labrador's offshore. Late last year it was announced that three call for bids by the Canada-Newfoundland and Labrador Offshore Petroleum Board had resulted in over $110 million in exploration work commitments in the Flemish Pass-Central Ridge region and the Jeanne D'Arc Basin. The successful bidders included Husky Oil Operations, Statoil Canada and Repsol E&P Canada.

Minerals Rebound Due To Higher Production And Prices



Source: Newfoundland and Labrador Department of Natural Resources & Bank of Montreal – The Goods, A Monthly Commodity Watch

Fiscal Update

Newfoundland and Labrador's deficit in 2009/2010 came in at just under $33 million, almost $717 million below budget. Oil royalties were $2.1 billion, or $810 million higher than budgeted because of steeper than expected oil prices.

Newfoundland and Labrador's latest fiscal update projects a $12 million surplus in 2010/2011, with total revenues rising $303 million. Oil royalties are forecast to be $65 million higher than at budget time, thanks to stronger oil production. Corporate income tax revenues have been revised up $165 million, mainly due to gains in the resource sector. Personal income tax revenues are up $31 million, as a result of the strongest employment growth in Canada last year.

Program expenses are up $76 million, as a result of Hurricane Igor and pension expenses. Debt servicing costs are up $20 million, linked to increased interest on the unfunded pension liability and changes to actuarial assumptions.■

Provincial Report
Prince Edward Island

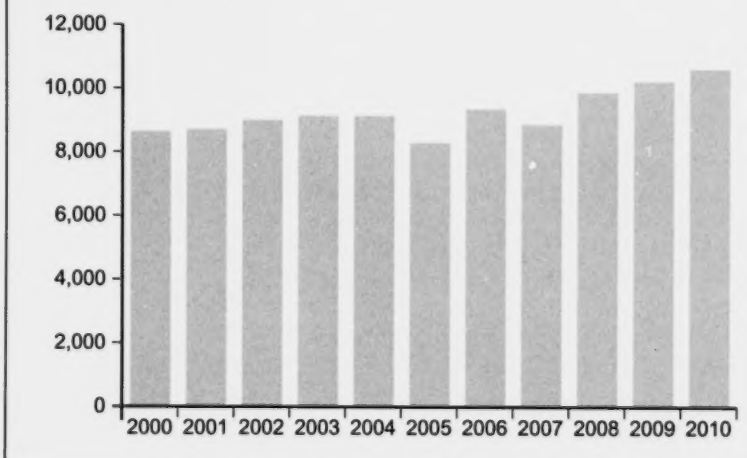
2010 in Review

Prince Edward Island benefited from a strong labour market early in 2010, along with robust consumer confidence. As a result, retail sales increased 5% year-to-date, with a 9% increase in the value of motor vehicle sales. However, the lingering aftereffects of the recession has continued to weigh on the province's exports and manufacturing sectors. Employment growth tailed-off in the second half of 2010, and remains weak coming in to 2011.

The PEI economy had 3.1% employment growth in 2010, but saw virtually no growth in the second half of last year.

Employment growth in health and educational services helped to boost the labour markets in Charlottetown and Summerside, while in the rest of the province employment declined in 2010. In aggregate, the PEI economy had 3.1% employment growth in 2010, but saw virtually no growth in the second half of last year. Average weekly earnings in the first eleven months of 2010 only increased 2.5%. Some announcements may help the province to turn the corner in 2011: the consolidation of TFL Technologies and sister company Tube-Fab Limited's precision machining aerospace operations in Summerside is expected to create upwards of 100 jobs.

P.E.I. Lobster Landings Rise
Lobster Landings (Metric Tonnes)



Source: Department of Fisheries and Oceans, P.E.I. Department of Fisheries, Aquaculture and Rural Development

The Island economy experienced a significant drop in exports as the lingering effects of the recession left a hangover in 2010, with the total value of merchandise exports for all goods falling 11% year-to-date as of November 2010 -- the steepest drop in Canada. Potato exports (including seed) were down 12% in the first eleven months of last year, although PEI's potato production increased almost 4% in 2010. According to the Prince Edward Island Potato Board, exports outside North America increased in early 2011 because of poor crops in Russia and Europe. The outlook for potato prices in 2011 is positive, suggesting export values could rebound this year.

Lobster export values rose 28% in 2010 alongside significant gains in export values of mussels and oysters, though crab exports declined. The value of french-fry exports fell 20% last year. Idled shifts at McCain Foods' Borden-Carleton plant resulted in 40% capacity utilization last fall, due to lower demand and prices. As US economic activity is expected to gather strength in 2011, this could provide a boost to french-fry exports this year. In terms of other exports, increases in pharmaceuticals and vaccines and veterinary medicine were more than offset by declines in aerospace.

PEI reported almost a 4% drop in farm cash receipts from all sources in the first three-quarters of 2010, due in part to a 6% drop in potato receipts. Lobster landings increased almost 4% in 2010, while landed values rose 12%.

PEI's manufacturing shipments shrunk 9% year-to-date to November 2010, due in part to a 7% drop in food shipments – which account for 54% of total shipments. Including aerospace and bioscience, these three sub-sectors account for roughly 80% of total manufacturing.

Housing starts fell 14% last year, as a result of a drop in condominium construction. The Canadian Real Estate Association forecasts housing resales will dip 11% on the Island this year, while the Canada Mortgage and Housing Corporation (CMHC) projects housing starts will decline 12%. CMHC is expecting the hous-

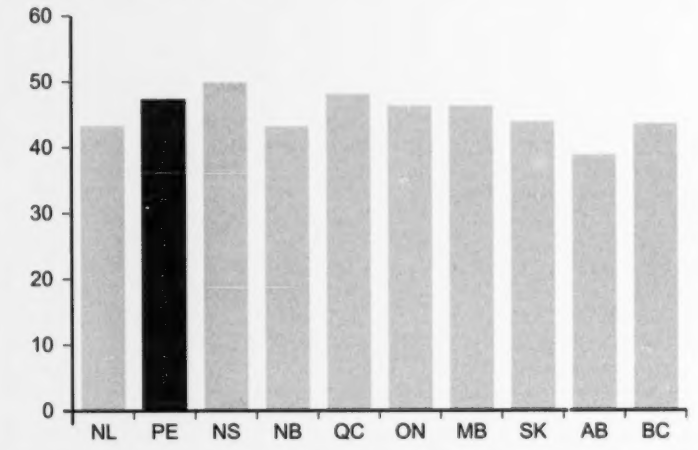
ing market to soften across Atlantic Canada and recent federal changes to mortgage rules will temper demand. In 2010, the value of non-residential investment fell over 25%, with large declines in all building types.

Tourism had a better year in 2010, as total room-nights sold were up 1% in 2010 and the Port of Charlottetown welcomed almost 100,000 cruise ship passengers and crew. The Government of Canada announced it will provide funding to support Northumberland Ferries Ltd. for another three years. This was welcome news on the Island in light of a recent study that showed the ferry service provides $33 million in economic benefits to the economies of PEI ($21 million) and Nova Scotia ($12 million), as well as supporting almost two hundred jobs between the two provinces. The federal government will also provide additional support to CTMA Traversier Ltée, which will allow the private ferry operator to provide year round service to Îles-de-la-Madeleine for four years.

Energy Accord

Under PEI's Energy Accord, electricity rates will be reduced by 14% this year and remain frozen next year. Thereafter, energy supply costs will increase 1% per year under the five year power purchase agreement with NB Power – excluding Point Lepreau deferral costs for replacement power. Power rates will increase after Point Lepreau comes back online to offset the deferred costs. The PEI government is helping fund the deferral costs, which will save ratepayers $2.9 million in the short term. PEI is expanding its commitment to wind power, which will result in 33% of its energy supply coming from wind by 2013. The PEI Energy Corporation will increase its wind power generation by 30 MW, while the Wind Energy Institute of Canada (WEI of Canada) will add another 10 MW. PEI is also seeking 50% federal funding for a third electricity transmission cable to New Brunswick, with a total investment cost of $90 million, which would provide additional back-up and allow for the export of wind power.

P.E.I. Has The Third Highest Top Marginal Tax Rate In Canada
Top Marginal Tax Rate (%) - 2010



Source: Canada Revenue Agency, http://www.taxtips.ca/marginaltaxrates.htm

Fiscal Update

PEI's deficit in 2009/2010 was $74 million, which was $11 million lower than budgeted on gains in own-source, non-tax revenues and lower debt servicing costs. PEI's budgeted deficit of $55 million for 2010/2011 remains on track, as higher revenues and lower debt servicing costs are offsetting higher program expenses. And while the province's efforts to tackle the deficit have not included tax increases, PEI still has the third highest personal income tax burden in Canada with the last two budgets avoiding any personal income tax relief. To date, the Island has resisted implementing a harmonized sales tax.

Capital Budget Forecast

PEI's 2011/2012 capital budget incorporates a reduction in stimulus spending, calling for $138 million in spending versus $155 million in 2010/2011. Almost half of next year's capital plan will be allocated to Health PEI, while another one-quarter will go towards highway transportation projects. Spending by Health PEI will focus on an ambulatory care centre, a palliative care centre, hospital renovations, information systems and equipment. Over the past three years, the provincial government's stimulus plan has boosted jobs by 4,400, provincial taxes by $41 million and GDP by $171 million.■

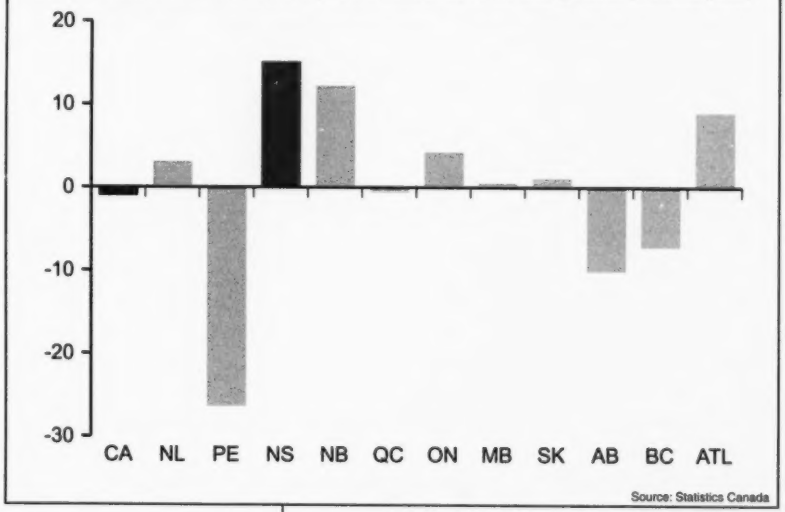
Provincial Report
Nova Scotia

2010 in Review

Nova Scotia's economy edged forward in 2010, but performance was mixed across many sectors with forecasts signalling a 0.6 percentage point lower rate of growth than Canada. Retail spending grew on par with the rest of Canada for the year. Employment across the province grew very little in 2010, as shrinking employment in the education sector held back overall job growth. The province led the country in non-residential investment growth, but it remains to be seen what effect utility rate increases in 2011 will have on businesses and households.

Nova Scotia Leads Canada In Non-Residential Investment Spending Growth For 2010

Non-Residential Investment January to December 2010 (% change over previous year)



Source: Statistics Canada

Employment in the province continues to be weak, with employment growing little since 2008. The biggest source of weakness in 2010 was educational services, down almost 4,100 jobs and accounting for 37% of total job losses. Recent announcements of cuts to school board budgets and university funding could result in further declines in 2011.

Employment in the province continues to be weak, with employment growing little since 2008.

While there were only marginal job losses last year in manufacturing, this sector is not immune to further restructuring. Looking ahead to 2011, Maple Leaf Foods plans to close its Berwick pork processing plant in April, with 280 jobs being lost. On a positive note, the federal government is investing $43 million in clean energy projects, including $28 million for the Northern Pulp mill in New Glasgow. The opening of Daewoo Shipbuilding Marine Engineering Trenton's wind tower and blade production plant will also generate employment in northern Nova Scotia in 2011.

Retail sales in Nova Scotia kept pace with the rest of Canada, up 5.4% from 2009 levels. However, after gasoline and motor vehicle sales are removed, growth in Nova Scotia's retail trade was below the Canadian average.

Although energy exports continue to be weak, non-energy exports are displaying some strength despite a Canadian dollar sitting near par. Energy exports fell on an 8% dip in natural gas production last year, while non-energy exports rose 7.8%. The bulk of export growth can be attributed to tires, up $149 million over last year as car sales rebounded from their recession slump. There were also gains in forestry products, as lumber, newsprint, and pulp prices all increased last year and lumber production improved. Statistics from the Port of Halifax show some gains in 2010, with double digit growth in breakbulk, ro/ro and containerized cargo despite bulk cargo weakness. The bulk cargo slump can be attributed to weak demand for gypsum, a continuing casualty of the US housing market slowdown. In January 2011, Fundy Gypsum announced an indefinite shutdown of its gypsum plant in Windsor, which will put 45 employees out of work.

Nova Scotia was well ahead of the rest of the country in 2010 in non-residential investment. Industrial spending in the province was up 13%, while Canada was down 4.6%. Wind energy projects, including the Daewoo Shipbuilding and Marine Engineering plant investment in Trenton, boosted industrial

investment. Commercial spending was up 19%, while the remaining Atlantic Provinces were down from 2009. Retail developments, like Bedford Commons and Dartmouth Crossing, are ongoing. Institutional investment, where the bulk of stimulus spending is concentrated, was up 10.2%, again better than the rest of Canada. Housing starts in Nova Scotia almost kept pace with the national growth rate by rising one-quarter.

Utilities

The Utility and Review Board approved Nova Scotia Power rate increases across the board, which took effect in January 2011. These increases represent 50% of the total amount to be recovered through the fuel adjustment mechanism, with 30% to be regained in 2012 and the final 20% in 2013.

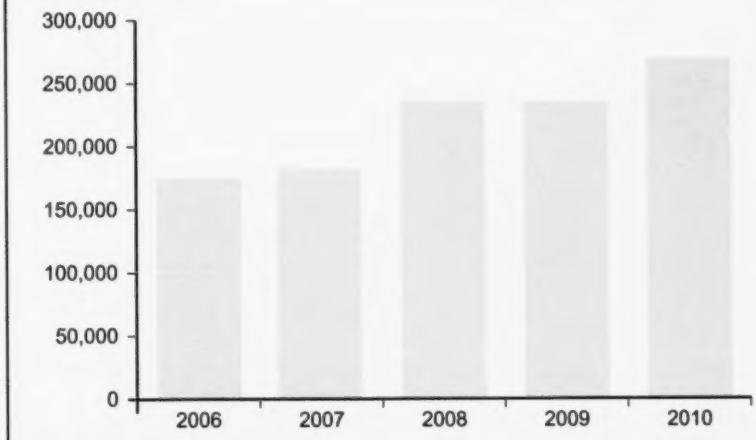
Nova Scotians will see their utility bills jump in 2011, with a household electricity rate hike of 5.7%. Meanwhile, Halifax Regional Water Commission bills jumped 27% and Heritage Gas was successful in its application to increase natural gas rates by 6.8%. All of these increases are outpacing growth in average weekly wages, which increased by 4% in the first eleven months of 2010.

Nova Scotia Power's latest annual capital expenditure plan outlines $2.8 billion in spending through to 2015, which includes costs related to the Lower Churchill subsea cable and the previously approved Port Hawkesbury biomass plant.

Tourism

Nova Scotia experienced a modest increase in overall tourism activity for 2010, with total room nights sold rising 1% compared to 2009. Cruise ship traffic displayed the most strength, up 14.7% at the Port of Halifax and an estimated 11% in Cape Breton. Overseas visits from Europe fell 14% last year due to a weaker euro and an uncertain financial future for several countries, though the number of German visitors to Nova Scotia increased by 11% from 2009.

The Port Of Halifax Had A Record-Breaking Year In Cruise Passengers In 2010
Cruise ship passengers



Source: Port of Halifax

The upcoming 2011 Canada Winter Games in Halifax are expected to create $125 million in economic activity. Since the majority of Nova Scotia's visitations are from other parts of Canada, the Games should provide a major boost to tourism statistics during February, which is usually the province's slowest tourism month.

Fiscal Update

Despite 2010 being a tough economic year, the most recent provincial budget update showed a $97.2 million surplus due in part to improvements in tax revenues and expense reductions.

Nova Scotia released a Capital Plan in early 2011 that included $465 million in capital funding for government departments and an additional $94 million in capital grants to government agencies.

On the business development front, nearly $36 million in payroll rebates issued in the middle of the last decade are set to expire in late 2011 and early 2012 - putting some jobs at risk if these incentives are not renewed. The Nova Scotia government is beginning to incorporate elements other than payroll rebates in its new jobsHere economic strategies, including a capital investment incentive and a workplace innovation and productivity skills incentive.■

Provincial Report
New Brunswick

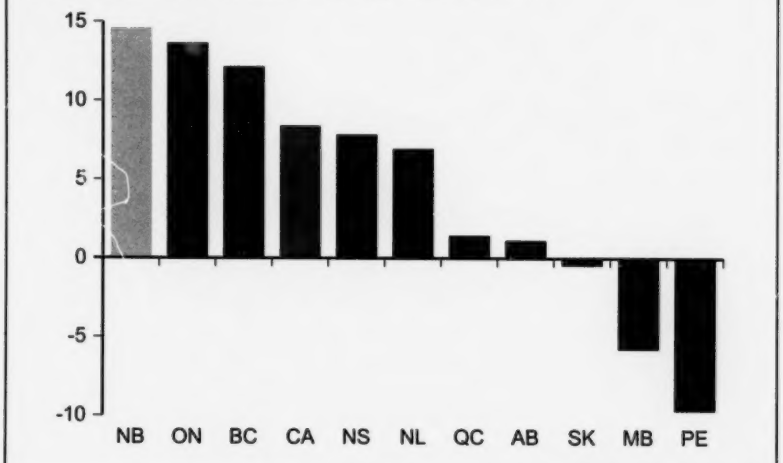
2010 in Review

Consumers in New Brunswick continued to struggle through 2010 with employment falling and retail and housing activity weaker than national rates of growth. However, the industrial sector has provided support with broad-based growth in manufacturing and exports.

The recession did not have as big of an impact on employment in New Brunswick as some other parts of Canada but the recovery has been weaker so far, particularly in the last half of 2010. New Brunswick had the weakest job market in Canada in 2010 with employment down about 3,400. This weakness also pushed the unemployment rate in the province up to 9.3% last year.

New Brunswick had the weakest job market in Canada in 2010 with employment down about 3,400.

New Brunswick Non-Energy Export Growth Leads The Country
Change in non-energy exports, Jan-Nov 2009 - Jan-Nov 2010 (%)



Source: Strategis Trade Data Online

The largest job losses last year were in business services and accommodation/food services, which were both down about 2,000. Business services employment is dominated by call centre jobs, which have been steadily declining in New Brunswick since 2006. The hotel and restaurant sector is still struggling to recover from the impact of the recession.

Retail sales expanded by 4.5% in the first 11 months of last year, which was below the national rate of growth of 5.1%, but stronger than the tepid growth of 1.5% in 2009. The growth was led by stronger motor vehicle sales and gasoline sales with the latter largely due to rising prices. Motor vehicle sales (+8%) have bounced back from the losses that occurred in 2009 and have grown at a similar pace as the rest of the country.

The latest tourism stats suggest some improvement in activity this year. Total room-nights sold were up 1% province-wide with strength in the Moncton (+10%) and Miramichi (+8%) areas and a decline in the Saint John area (-6%).US automobile entries were up 10% last year and room-nights sold to Americans increased 2%. Traffic was up 5% at the provinces four largest airports with Moncton leading the way with a 7% increase.

Housing starts in the province ended 2010 up 16%, but trailed growth rates nationally. Single home starts were down 4% in the province due to weak employment prospects, but multi-unit construction was up nearly 50%. Moncton apartment starts reached their highest level since 2002. The Moncton market saw solid growth in starts overall with a 44% increase last year, but starts were down in the other major urban centres with an 8% decline in Fredericton and a 1% drop in Saint John. The resale market was also weaker throughout the province in 2010.

New Brunswick led the country in manufacturing shipments (+21%) and export growth (+28%) in the first 11 months of 2010, led by a rebound in most major products. Refined petroleum exports, which tend to drive fluc-

tuations in overall exports due to their high relative value, were up 35% largely due to stronger prices. Forest products also experienced strong growth with pulp exports up 57% and wood products up 29%. Both products saw a strengthening of prices in 2010, but lumber (the largest component of the wood products industry) also had a rebound in production. Total production of sawn lumber was up 23% in the first eleven months of 2010, which was the first increase in production since 2004. Production of fertilizer by Potash Corp. rebounded in 2010 with total exports up 137%. Several other products were also up, including fish products (+9%) and mining products (+6%).

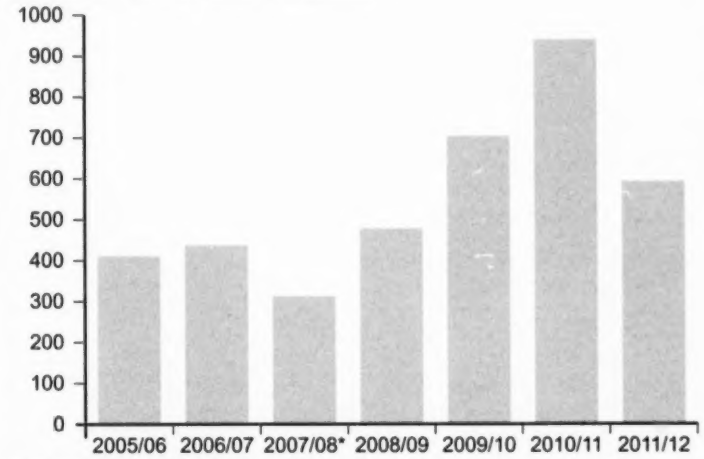
Fiscal Update

New Brunswick's deficit is now expected to reach $820 million for the current fiscal year, about $72 million higher than budgeted last spring. Total government spending is estimated to be $140 million higher this year. The Province has implemented a 1% reduction in departmental spending that will reduce the deficit by about $43 million this year. New Brunswick's net debt is forecast to rise to $9.6 billion this year, up from $6.5 billion in 2006/2007. While many measures to reduce the ballooning deficit are being examined, there will be a significant cut in capital spending in 2011/2012. This will mitigate further increases in the total debt level of the province which will in turn keep the level of interest on the debt from going higher. The planned capital budget of $593 million for 2011/2012 is 37% lower than the $940 million spent 2010/2011, but more in line with pre-stimulus spending. The largest decline will come in highways and related transport infrastructure where spending will fall by about $150 million.

Port of Saint John

The volume of shipments at the Port of Saint John reached record levels in 2010. About 30.5 million tonnes (imports and exports) were moved last year thanks to increased shipments of energy products and potash. This was the first full year of LNG shipments into the port and potash production rebounded in 2010 after several shut downs during the previous year. American Iron & Metal will increase its shipments of shredded recycled metal from the port from 50,000 tonnes to 250,000 tonnes per year after its planned $30 million expansion in Saint John. A larger increase in activity will come when Potash Corp. increases its output of potash from 800,000 tonnes per year to two million tonnes in 2013. One area the port will continue to try to build on is container activity. About 46,000 TEUs were moved through the Port last year, which is 4% higher than in 2009 but still about 6% below 2008 levels. Tropical Shipping, which travels to Florida and the Caribbean is the only container line currently calling on Saint John. Cruise ship activity at the Port of Saint John also reached a record level in 2010 with over 205,000 passengers visiting the city, up strongly from 88,000 passengers in 2006. The port is working to acquire joint funding with the provincial and federal governments for an $18 million expansion that would expand berthing capacity to improve its cruise potential. ■

Capital Spending Returns To Pre-Stimulus Levels
New Brunswick Capital Spending ($ millions)



* Excludes one time Trans-Canada Highway payment of $544 million

Source: Statistic Canada

Mark Your Calendars for

APEC's Major Projects Event

In June APEC will hold its Major Projects Event in Halifax, St. John's and Moncton. At this luncheon event APEC economists will present the 28th annual Major Projects Inventory which includes a detailed look at the investment prospects and climate for Atlantic Canada. The Major Projects Event also features presentations by keynote industry speakers currently involved with large regional projects and provides delegates with a strategic networking opportunity between decision-makers in government and large, medium and small business.

Major Projects Event 2011 will be held in the following locations:

June 2, 2011 – St. John's, Newfoundland & Labrador – Delta St. John's
June 6, 2011 – Halifax, Nova Scotia – Pier 21
June 8, 2011 – Moncton, New Brunswick – Delta Beauséjour

Outlook 2012:
Atlantic Canada's Business Outlook Conference

APEC's Business Outlook Conference is a morning event held across the entire region in early November. Now in its 17th year, Outlook provides essential intelligence from APEC economists to guide your business plans, features key corporate speakers who provide valuable insight into their industries and gives delegates an opportunity to join in the discussion of Atlantic Canada's most important business issues.

Outlook 2012

Saint John, NB – **November 7, 2011**
Charlottetown, PEI – **November 8, 2011**
Halifax, NS – **November 9, 2011**
St. John's, NL – **November 10, 2011**

For more information visit the website:
www.outlookconference.ca